



# Hadley-Luzerne Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2009 — May 31, 2012

2012M-188



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	4
Comments of District Officials and Corrective Action	4
<b>FINANCIAL CONDITION</b>	5
General Fund Budget	5
Reserves	8
Multiyear Financial Plan	9
Recommendations	9
<b>APPENDIX A</b> Response From District Officials	10
<b>APPENDIX B</b> OSC Comments on the District’s Response	16
<b>APPENDIX C</b> Audit Methodology and Standards	17
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	18
<b>APPENDIX E</b> Local Regional Office Listing	19

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 2012

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Hadley-Luzerne Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Hadley-Luzerne Central School District (District) is located in the Towns of Day, Edinburgh, and Hadley in Saratoga County, and the Towns of Lake Luzerne, Stony Creek, and Warrensburg in Warren County. The District has a current enrollment of 875 students in pre-kindergarten through 12th grade, and a work force of 189 full- and part-time employees. The District's enrollment has declined by almost 22 percent over the past 10 years.<sup>1</sup>

The District is managed by a Board of Education (Board) comprising five elected Board members. The Superintendent of Schools serves as the chief executive officer and reports to the Board. During the 2011-12 fiscal year, the District was managed by an interim Superintendent. The District's business operations are overseen by a Business Manager who also serves as the District Treasurer. The current Business Manager is a BOCES employee who is shared with another school district.

In addition to its standard education programs, the District also provides special education services to students who need them using its own staff or outside private providers. In addition, the District shares certain staff positions with other school districts through cooperative service agreements with the Washington-Saratoga-Warren-Hamilton-Essex BOCES. For example, the District shares a food service operations manager, who is a BOCES employee, with the Lake George Central School District.

The District's adopted general fund budget for the 2012-13 fiscal year is \$18,081,780 including a tax levy of approximately \$10 million, which is the maximum allowed under the limitations of the tax cap.<sup>2</sup> The District's expenditures are funded primarily with revenues from real property taxes and various types of State and Federal aid.

## Objective

The objective of our audit was to evaluate the District's financial condition. Our audit addressed the following question:

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<sup>1</sup> The District's enrollment has declined in recent years. In fiscal year 2000-01, the District had an enrollment of 1,139 students. By fiscal year 2010-11, enrollment had declined to 889 students. The number of District teachers also declined with enrollment: the District had 99 teachers in fiscal year 2000-01, but only 86 teachers in 2010-11.

<sup>2</sup> Chapter 97 of the Laws of 2011 established a tax levy limit on all local governments in New York State, effective January 1, 2012. This law requires that local governments maintain any property tax levy increase to no more than 2 percent or the rate of inflation, whichever is less.

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the District's financial stability?

**Scope and  
Methodology**

We examined the District's financial condition for the period of July 1, 2009, through May 31, 2012. We also reviewed the District's budget for the 2012-13 fiscal year. To develop additional information for perspective and background, we reviewed financial data from the 2006-07, 2007-08, and 2008-09 fiscal years.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves, and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, coupled with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures. Accurate budget estimates also help ensure that the levy of real property taxes is not greater than necessary. Further, the Board should prepare a multiyear financial plan that projects future revenues and expenditures and prepares for the fiscal challenges of future years.

We found that the Board adopted budgets during our scope period that cut costs by abolishing positions, outsourcing services or sharing them with other districts, and saving money on energy costs. Given the District's declining enrollment and the current economic climate, cost-cutting is prudent. However, the District's budgets did not cut revenues at the same pace, resulting in the District accumulating an increasing amount of money in restricted fund balance, or reserves, and building up amounts of unexpended surplus funds that exceeded the legal limit in the past two years. Although the District appropriated more than \$1 million in unexpended surplus each year to help finance the ensuing year's budget, the District did not use these funds because it generated a surplus each year. When District officials succeed in cutting costs, it is important that they pass on the benefits of these economies to District taxpayers. We also found that the Board has not developed a multiyear financial plan to improve the budget development process. By developing such a plan, District officials will have a roadmap to help manage future District costs and resources.

### General Fund Budget

The general fund is the District's main operating fund in which the financial transactions for its education programs and other operating activities, that include the maintenance of buildings and grounds, transportation, and administration, are recorded. The general fund's financial condition depends on the Board's ability to develop realistic budgets and monitor the District's financial operations throughout the fiscal year. Further, the Board is required to obtain voter approval for its budgets. If the voters reject a proposed budget, the District has to operate under the spending restrictions of a contingency budget.

In preparing the general fund budget, the Board is responsible for estimating what the District will spend and what it will receive in

revenue (e.g., State aid), estimating how much fund balance<sup>3</sup> will be available at fiscal year-end and, to balance the budget, determining what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary. Real Property Tax Law (Law) allows a district to retain a limited amount of fund balance (up to 4 percent of the ensuing year's budget) as unexpended surplus. Fund balance in excess of that amount must be used to fund a portion of next year's appropriations, thereby reducing the tax levy, or used to fund legally established reserves.

We compared the District's actual revenues and expenditures for fiscal years 2009-10 and 2010-11 to the adopted budgets and reviewed transactions through May 31, 2012, to estimate the results of operations through the end of the 2011-12 fiscal year. We found that the District's budgets for these years reduced District operating costs in line with the District's decreased enrollment. District officials' cost-cutting helped to maintain the financial stability of the District. The District investigated and adopted several cost savings measures that included abolishing positions, outsourcing services and/or sharing them with other school districts, and saving on utility costs. For example, in the 2010-11 fiscal year, the District estimated that it saved about \$70,000 by obtaining physical therapy and occupational therapy services from a private firm on a New York State contract. Additionally, the District entered a contract with BOCES to share the services of a food service manager with the Lake George Central School District. In the 2011-12 fiscal year, continued cost-cutting again allowed the District to reduce expenditures by more than \$200,000.

While District officials did a good job at reducing costs in the 2009-10 through 2011-12 fiscal years, they did not reduce budgeted revenues to the same extent, so the District achieved a surplus each year. For example, the District's budget for the 2009-10 fiscal year included a \$1.23 million appropriation of unexpended surplus funds to finance operations in the next fiscal year. Although appropriating unexpended surplus funds typically results in a planned operating deficit in the year of appropriation, the District achieved a small operating surplus (\$73,000) in 2009-10. The surplus in this year was due in large part to the District's receipt of over \$700,000 in Federal Fiscal Stabilization

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<sup>3</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

Grant (Federal Grant) moneys during the 2009-10 fiscal year, without which the District would have needed to use some of the appropriated funds to help pay for operations.

Voters rejected the District’s 2010-11 budget, so the District had to operate under the restrictions of a contingency budget. The District again received Federal Grant moneys — about \$385,000 in the 2010-11 fiscal year. However, District officials did not revise their revenue estimate, so the District ended the year with a much larger operating surplus — nearly \$582,000. Even though the District received no Federal Grant moneys in the 2011-12 fiscal year, it again finished the year with an operating surplus of \$483,000. Table 1 shows the general fund’s financial activity, including operating results and fund balance, over our three-year scope period.

	<b>FY 2009-10<sup>a</sup></b>	<b>FY 2010-11<sup>b</sup></b>	<b>FY 2011-12</b>
Beginning Fund Balance	\$1,762,925	\$1,835,432	\$2,417,174
Actual Revenues	\$17,601,606	\$17,578,557	\$17,271,537
Actual Expenditures	\$17,528,942	\$16,996,809	\$16,788,664
Operating Surplus/(Deficit)	\$72,664	\$581,748	\$482,873
Prior Period Adjustments	(\$157)	(\$6)	\$0
Total Year End Fund Balance	\$1,835,432	\$2,417,174	\$2,900,047
Less: Restricted Fund Balance	\$94,784	\$450,000	\$816,457
Unrestricted Fund Balance	\$1,740,648	\$1,967,174	\$2,083,590
Less: Appropriated Unexpended Surplus for Ensuing Fiscal Year	\$1,120,000	\$1,166,819	\$1,100,000
Unexpended Surplus Funds	\$620,648	\$800,355	\$983,590
Unexpended Surplus as a Percent of Ensuing Year’s Appropriations	3.3%	4.5%	5.4%

<sup>a</sup> In 2009-10, the District received \$738,146 in Federal Grant moneys.  
<sup>b</sup> In 2010-11, the District operated under a contingency budget and received \$385,285 in Federal Grant moneys.

As a result of cost-cutting without similar cuts in revenues, the District has been able to set aside money in reserves (restricted fund balance). Specifically, the District established reserves for tax certiorari,<sup>4</sup> unemployment, and retirement contributions. At the same time, total unrestricted fund balance has grown from \$1.7 million to almost \$2.1 million. In fact, total unrestricted fund balance at the end of 2011-12 was more than 12 percent of actual 2011-12 expenditures. District officials appropriated about \$1.1 million of unexpended surplus funds in each of the three years to help finance the ensuing year’s budgeted costs. However, the District has not used these funds because the

<sup>4</sup> Tax certiorari is a legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment challenges the assessment on the grounds of excessiveness, inequality, illegality, or misclassification.

District generated operating surpluses in each year and, by doing so, actually accumulated more unexpended surplus funds each year. As shown in Table 1, the unexpended surplus funds at the end of 2010-11 and 2011-12 exceeded the 4 percent limit allowed by Law.

In reviewing the District's budget for the 2012-13 fiscal year, we found that the Board has continued to cut costs. The 2012-13 budget abolished another 4.5 positions and reduces administrative costs by using a BOCES contract to share the services of a business administrator with the Galway Central School District. The District also recently entered an energy performance contract that estimates total savings of nearly \$1.9 million over the next 18 years.

It is important that District officials pass on the benefits of these economies to District taxpayers. By developing budgets that keep revenues in line with expenditures, and by adopting a policy for the use of unexpended surplus funds, District officials can achieve compliance with the Law and ensure that District residents pay no more than necessary in tax levies to support District operations.

## **Reserves**

Fund balance provides a cushion against unforeseen events and economic fluctuations and provides cash flow during the year. Additional amounts of fund balance can be restricted, or reserved, for particular purposes or appropriated to reduce taxes. When District officials establish reserves for specific purposes, it is important that they develop a plan for how to fund the reserves, how much should be accumulated in the reserves, and how and when these moneys will be used to finance related costs. Such a plan serves to guide District officials in the accumulation and use of reserved funds and to inform District residents about the use of their tax moneys.

District officials have accumulated an increasing amount of unexpended surplus funds and restricted fund balance, or reserves. As shown in Table 1, reserves have grown from about \$95,000 to over \$800,000 in just three years. This gives the District almost 5 percent of appropriations in reserves. Despite this substantial accumulation in reserves, District officials have not adopted a policy stating how much would be set aside in each reserve, how each reserve would be funded, or when the balances would be used. Furthermore, with the exception of the tax certiorari reserve that had a balance of \$365,957 as of December 19, 2011, the funding of these reserves was not planned and included as an appropriation in the budgets voted on by taxpayers; instead, the reserves were funded by unexpended surplus funds at year end. Had District officials included transfers of unexpended surplus to reserves in the ensuing year's budget, they could have achieved the same result, but done it in a way that is more transparent to taxpayers.

## **Multiyear Financial Plan**

Multiyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of near-term budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unexpended surplus funds or establishing and using reserves) to finance its operations. Multiyear financial planning can also help District officials project the future costs of employee salaries and benefits provided for in collective bargaining agreements. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The Board has not yet developed a multiyear financial plan. District officials need to formulate a plan that takes current economic conditions into consideration, the recent trend of reductions in State aid, and the impact of the new tax cap law on revenue projections. Further, employee benefit costs, like medical insurance and required contributions to the retirement systems, continue to increase. The Board also needs to evaluate the establishment and future use of reserve moneys. District officials should develop and regularly update a realistic multiyear financial plan and ensure that it includes current financial data and consideration of ongoing economic conditions. A well-designed plan can assist the Board in making timely and informed decisions about the District's programs and operations.

## **Recommendations**

1. District officials should prepare budgets that keep revenues in line with expenditures.
2. District officials should adopt a policy for the use of fund balance.
3. District officials should adopt a reserve policy establishing how reserves will be funded, how much will be reserved, and when reserves will be used.
4. Funding for reserves should be included in the budgets approved by voters.
5. District officials should develop a multiyear financial plan to provide a framework for future budgets and facilitate management of the District's financial operations.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.



***HADLEY – LUZERNE CENTRAL SCHOOLS***

27 Ben Rosa Park  
Lake Luzerne, NY 12846  
(518) 696-2112 x138

January 10, 2013

To: GLENS FALLS REGIONAL OFFICE  
Jeffrey P. Leonard, Chief Examiner  
One Broad Street Plaza  
Glens Falls, NY 12801-4396

From: HADLEY-LUZERNE CENTRAL SCHOOLS  
Tim M. Hilker, Business Administrator  
27 Ben Rosa Park  
Lake Luzerne, NY 12846

SUBJECT: MANAGEMENT RESPONSE TO OSC FINANCIAL CONDITION REPORT 2012M-188

The new administration of the district is grateful for the work performed by the Office of the State Comptroller. Their analysis and input into the financial condition of the district have provided the foundation for a new superintendent and business administrator to effectively assist the board of education in managing the district's financial stability and planning for future years. It is our objective to address, very specifically, some of the findings of this report to provide complete transparency to the taxpayers of the district.

**General Fund Budget**

*Unrestricted Fund Balance*

As described in the financial condition report, the district has worked relentlessly over the past several years to make significant reductions to its expenditure budget to counter uncontrollable changes and restrictions on the revenue budget. Furthermore, the district continues to explore the possibility of sharing services with other districts, to assess the necessity of out-sourcing services, and to evaluate programmatic efficiency. The current financial position of the district is largely attributed to these cost-cutting measures and the temporary introduction of federal funds into the General Fund over a short period of time.

An outstanding deficit in the school's Cafeteria Fund, not addressed in the audit, would further reduce the suggested surplus of funds cited in the audit. Appendix B of this report (2<sup>nd</sup> bullet point) indicates that the results of operations in both the General Fund and the Cafeteria Fund were analyzed and reviewed. The amended Table 1 below illustrates what the overall financial condition of the district would be, had the results from school lunch operations been included (*changes in italics*).

See  
Note 1  
Page 16

Table 1 (Amended): General Fund (2009-10 through 2011-12)			
	FY 2009-10	FY 2010-11	FY 2011-12
Beginning Fund Balance	\$1,762,925	\$1,835,432	\$2,417,174
Actual Revenues	\$17,601,606	\$17,578,557	\$17,271,537
Actual Expenditures	\$17,528,942	\$16,996,809	\$16,788,664
Operating Surplus/(Deficit)	\$72,664	\$581,748	\$482,873
Prior Period Adjustments	(\$157)	(\$6)	\$0
Total Year End Fund Balance	\$1,835,432	\$2,417,174	\$2,900,047
Less: Restricted Fund Balance	\$94,784	\$450,000	\$816,457
Unrestricted Fund Balance	\$1,740,648	\$1,967,174	\$2,083,590
Less: Appropriated Unexpended Surplus for Ensuing FY	\$1,120,000	\$1,166,819	\$1,100,000
Unexpended Surplus Funds	\$620,648	\$800,355	\$983,590
<i>Less: School Lunch Fund Deficit</i>	<i>\$147,688</i>	<i>\$127,223</i>	<i>\$103,286</i>
<i>Net Unexpended Surplus Funds</i>	<i>\$472,960</i>	<i>\$673,132</i>	<i>\$880,304</i>
<i>Net Unexpended Surplus Funds as a Percent of Ensuing Year's Appropriations</i>	<i>2.53%</i>	<i>3.77%</i>	<i>4.87%</i>

It is also important to note that for the 2011-12 fiscal year that the district returned \$102,315 to its taxpayers by way of a reduction in the real property tax levy. Additionally, for the 2012-13 fiscal years, the district increased its appropriation of unexpended surplus by \$100,000. All of these measures are an effort to keep the unexpended surplus as close to the legal limit of 4% as possible to protect the long-term financial ability of the district to operate.

See  
Note 2  
Page 16

#### *Federal Stimulus Grants*

While the introduction of the federal stimulus grants was an integral component in maintaining financial stability through tough economic times, they were temporary and unique in their accounting treatment. At the time that revenue estimates were made, it was also unknown whether stimulus grants would be reintroduced with new requirements or reinstated at all.

Table 2 below illustrates what the financial impact would have been, absent these federal grants, and what the operating surplus (or deficit) would have been in each of the three years covered by this report without the grants. It is especially important to point out that the cumulative operating surplus for the same period would have amounted to approximately \$15,000 or 0.08% of an average budget for this period.

See  
Note 3  
Page 16

Table 2: Federal Grants (2009-10 through 2011-12)			
(in 000's)	FY 2009-10	FY 2010-11	FY 2011-12
Surplus	\$73	\$582	\$483
Less: Federal Stimulus Grants	(\$738)	(\$385)	\$0
Effective Surplus (Deficit)	(\$665)	\$197	\$483
Cumulative Eff. Surplus (Deficit)			\$15

See  
Note 4  
Page 16

The financial condition report also noted that the district failed to reduce budgeted revenues to account for these funds in 2010-11. Had the district reduced its estimate of revenues in fiscal year 2010-11, and then realized the reduction of these funds in the 2011-12 fiscal year, one of three potential outcomes would have occurred:

1. \$385,000 would have needed to be reduced from the expenditure budget in the following fiscal year;
2. \$385,000 in additional revenues would have been required to balance the budget in the following fiscal year; or
3. Unexpended surplus of the same amount would have been consumed in each budget year until one (or a combination) of the first two solutions were implemented.

While it may have been congruent with the legislative intent, all of these possible outcomes would have had a significant negative impact on programs and staffing. If not addressed in the manner chosen by the district, these radical changes in revenues could very easily have compounded into an insurmountable budgetary gap in subsequent budget years.

### Reserves

The district currently has four reserve accounts established which make up the Restricted Fund Balance. Of those four reserve accounts, two are non-elective reserves and two are reserves that board of education elected to create for financial planning purposes. The following table (Table 3) illustrates those reserves that are elective or non-elective, and their balance.

See  
Note 5  
Page 16

Table 3: Reserve Accounts (2009-10 through 2011-12)		
Reserve Account	2011-12 Balance	Elective/Non-Elective
Tax Certiorari	\$366,457	Non-Elective
Unemployment Insurance	\$125,000	Elective
Employees' Retirement Contribution	\$150,000	Elective
Employee Benefit Liability	\$175,000	Non-Elective
<b>TOTAL RESTRICTED FUND BALANCE</b>	<b>\$816,457</b>	

The Tax Certiorari Reserve was established by the board of education on the advice of the district's legal counsel. This reserve account relates specifically to on-going litigation over assessment matters. The funding levels have been discussed with the district's legal counsel and its external auditors. The current funding level is believed to be reasonably reflective of the potential liability to the district.

The Employee Benefit Liability Reserve (EBLR) relates to Other Post-Employment Benefits (OPEB) and is guided by Government Accounting Standards Board rule 45. Prior to the creation of this reserve, the Office of the State Comptroller issued guidance<sup>1</sup> that calls for the establishment and accounting of this liability. Together, the Tax Certiorari Reserve and the EBLR account for \$541,457 or 66% of total reserves.

The remaining \$275,000 in reserves were intentionally created and funded by the district to prepare for inevitable increases in expenditures in unemployment insurance and retirement contributions. As a result of tough fiscal years, it is expected that unemployment costs will significantly increase. At the time this reserve was established, there was also no clear guidance indicating whether or not extended unemployment benefits would remain in place or for what period of time they would remain. Similarly, due to economic constraints, employer pension costs have been increasing at alarming rates. The board of education acknowledges the purpose of this reserve and intends to use it in a strategic manner over the next several years to help offset future tax levy increases and to help preserve programming for students.

Lastly, the financial condition report cited a lack of policy related to when, how, and to what extent, each of these reserves would be funded. The district does acknowledge that this is a recommended practice and will continue working to develop such a policy. However, based on guidance from the Office of the State Comptroller<sup>2</sup>, the district felt that sufficient guidance existed to support the establishment of these reserves. Guidance for three of these four reserve accounts can also be found in General Municipal Law. District policy would be both redundant and irrelevant with respect to law or guidance issued by the NYS Comptroller's Office.

See  
Note 6  
Page 16

### **Multi-Year Financial Plan**

The district acknowledges the need for a long-range strategic fiscal plan. This has been a topic of discussion in open session by the board of education recently. They have tasked the administrative team with developing such a plan and have set a goal of March 2013. This timeline will allow for the development of the current budget, state aid figures to be issued, creation of the tax levy limit calculation, and the strategic planning for use of fund balance and reserves.

There will be a continuous review of this strategic plan in an attempt to account for material changes in employer pension costs, health care expenses, contractual obligations, and state aid revenue. There will be ongoing assessments around the need for continued use of fund balance and reserves, with respect to tax levy limits, changes in economic conditions, and assumptions made regarding state aid revenues.

### **Summary**

As employer pension contributions, health care expenses, and other major costs continue to rise at double-digit rates, and the local ability to generate revenues is inhibited by state mandates, it is ever more important that the district take all precautionary measures possible to prevent financial instability. It is the desire of district administration to provide transparency, long-range planning guidance, and financial stability to Hadley-Luzerne

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<sup>1</sup> State Comptroller Thomas DiNapoli issued a memo shortly after the Government Accounting Standards Board issued rule 45 to support the creation of this reserve to properly disclose and fund the related liability. For more information, please visit: <http://www.osc.state.ny.us/press/releases/may08/050808a.htm>.

<sup>2</sup> The Office of the New York State Comptroller has developed a "Local Government Management Guide" that provides guidance on the establishment, purpose, funding, and use, of reserves that are available to school districts. For a copy of this guidance, please visit: <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>.

CSD. It is equally important that we comply with the regulations and guidance set forth by the comptroller's office.

This financial condition report serves as a learning tool for the new administration of the district. It is also intended to assure the public that the district is giving due diligence to maximizing the educational experience of its students with public funds. There are certain aspects of this report that the district feels are not reflected completely or accurately, but take seriously the recommendations outlined herein. The most efficient way for users of this report to have their concerns addressed is to take into account the global view of these issues and to address the district directly with questions or clarifying remarks.

Respectfully Submitted,

Tim M. Hilker  
School Business Administrator

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

This analysis assumes that the Board of Education is willing to further subsidize the cafeteria fund through the use of unexpended surplus funds from the general fund. There was no indication during our audit that the Board planned to either increase the subsidy or write off the outstanding interfund advances from the general to the cafeteria fund. Furthermore, even if the Board had taken either of these actions, the levels of both restricted and unrestricted fund balance in the general fund would still have increased for the three years.

#### Note 2

We disagree. Unexpended funds were not “returned” to the taxpayers during our audit period as a result of annual operating surpluses. In 2011-12, the District had an operating surplus of more than \$480,000 and thus did not use any of the more than \$1.1 million of unexpended surplus that was appropriated in the budget.

#### Note 3

While we agree that the absence of the Federal stimulus grants would have affected the financial results for 2009-10 and 2010-11, the Board planned for operating deficits in each of these years by appropriating more than \$1.1 million of unexpended surplus funds in each budget. Absent these grant moneys, the District still would not have used the total amounts appropriated in the budget.

#### Note 4

Our report does not address the impact of Federal stimulus grants when discussing the reduction of budgeted revenues. If the District continues to experience operating surpluses, the District does not need to estimate as much total revenue and, correspondingly, collect as much property tax to fund the current level of appropriations needed to pay for operations.

#### Note 5

For clarification, all four reserves are established and funded at the discretion of the Board of Education in accordance with the applicable sections of General Municipal and Education Laws. None of them are “non-elective” or required by law.

#### Note 6

It is important that the Board develop a plan for funding its reserves, including how much will be accumulated in each reserve, when these moneys will be used, and for which specific purpose. These are local decisions that local residents should know about. We commend District officials for their commitment to developing policies governing their reserves.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the financial condition of the District. To accomplish the objectives of our audit we performed the following steps.

- We interviewed officials to gain an understanding of the District’s budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general and cafeteria funds. To gain additional background information and perspective, we also reviewed financial data from fiscal years prior to those included in the audit scope period.
- We compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We analyzed the composition of sources of revenue to identify trends.
- We reviewed expenditures based on the District’s budget categories to identify significant expenditures and analyze trends.
- We analyzed the inter-fund advances and transfers from the general fund to the cafeteria fund.
- We reviewed Board meeting minutes and resolutions to verify the establishment of the reserves.
- We reviewed Board meeting minutes and resolutions to verify the abolishment of staff positions.
- We interviewed officials and obtained related documentation of the District’s efforts to realize cost savings.
- We interviewed officials to determine if the District had developed a multiyear financial plan.
- We tested the reliability of the data reported on the annual update document and the financial statements by reviewing journal entries, bank statements, and cash receipts and disbursements. We also reviewed the procedures for entering transactions in the accounting system.
- We reviewed budget and revenue status reports and trial balances.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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